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**Parent Policy:** Endowment Management Policy

## Endowment Management Procedure

<b>Office of Administrative Responsibility:</b>	Office of the Vice-President (External Relations) Office of the Vice-President (University Services and Finance)
<b>Approver:</b>	Vice-President (External Relations) Vice-President (University Services and Finance)
<b>Scope:</b>	Compliance with this University policy extends to all academic, support and excluded staff, as outlined and defined in the <u>Recruitment Policy (Appendix A and Appendix B)</u> .

### Overview

**Endowment funds** represent contributions which are invested in perpetuity, with a portion of the investment earnings used to support specific university initiatives as set out in the purpose of the **endowment**. They are an important source of long-term permanent funding and play an integral role in helping the university achieve its goals. By accepting these funds, the university must adhere to specific legal obligations and financial management and reporting responsibilities (among other responsibilities). Further, the thoughtful and careful management and administration of endowment funds helps to maintain and enhance the confidence and trust of the university's donor community.

Where the term Dean is used, it also applies to Vice-Presidents, the Vice-Provost and University Registrar, and the College Deans who administer endowments within their portfolios.

### Purpose

The university's endowment management framework helps to ensure that endowments are managed effectively and efficiently, which in turn assists The Governors of the University of Alberta carry out its obligation as **trustee**. The purpose of this procedure is to ensure the university complies with its responsibility to properly establish, manage and administer endowments.

Adherence to the Endowment Management Policy and Procedure is subject to periodic internal audit review.

## **PROCEDURE**

### 1. Establishment of endowments

#### a. New endowment request

The appropriate Dean requests new endowments. Prior to submission of a request on behalf of the faculty, the Dean must understand the proposed purpose and have confidence that the university will be able to administer and spend in accordance with that purpose, in perpetuity. The Dean identifies who will hold the endowment (i.e. budget owner) and endowments are generally held by Deans, Chairs and Directors.

b. New endowment approval

The Vice-President (External Relations) is responsible for approving the establishment of new endowments and accepting endowment funds. To facilitate the efficient establishment and subsequent administration of endowments, a **governing document** is required (Statement of Trust form, or a bequest directing an endowment be established).

Endowments must conform to university policies and procedures, including the University Funds Investment Policy. Proposed endowments that by their nature or terms are not clearly in conformity with university policies and procedures must be evaluated by the Vice-President (External Relations), in consultation with the President's Executive Committee - Operational, as appropriate. Consideration for special circumstances will only apply under extraordinary circumstances.

c. Minimum thresholds

Due to the levels of funding required to achieve the purposes of certain types of endowments and the administrative costs related to establishing and managing them, the university has established \$50,000.00 as the minimum threshold to establish a new endowment (lower amounts could be added to existing endowments). Please refer to the *Naming Policy* for additional thresholds based on different endowment purposes.

d. Governing document

Endowment governing documents must be filed electronically in the Electronic Document and Records Management System (EDRMS/ Alfresco) by External Relations.

2. Endowment accounts

Endowment investment earnings are net of direct expenses (investment management and custodial fees) and an internal administrative assessment. The endowment capital amount is reflected on the university's statement of financial position as net assets.

Each endowment has three accounts associated with it:

a. Capital account for contributions

This account records donations and transfers, and will be credited with the contribution at the time it is received. Only contributions that are to be administered as part of the trust can be deposited to the capital account.

b. Capital account for capitalized amounts

This account records:

- i. Capitalized investment earnings not allocated for spending (excess earnings) or investment loss, credited (or debited in the case of investment loss) on a monthly basis.
- ii. Capitalized first year earnings (spending allocation associated with current fiscal year contributions) on a monthly basis (for those endowments receiving new contributions for that month). These amounts are first processed as revenue to the spending account, and then capitalized.
- iii. Capitalized spending allocation to assist in achieving the endowment minimum threshold required to support its purpose. These special cases are to be identified as part of the new endowment request.
- iv. Other capitalized unexpended spending allocation (under limited circumstances).

c. Spending account

This account records spending allocation revenue and expenditures. The annual spending allocation is credited to the spending account at the beginning of each fiscal year (April). The spending account is

part of the trust, therefore additional funds generally cannot be deposited or transferred to this account.

Contributions may, in rare instances, be deposited to the spending account. This generally occurs when the donor has pledged funds over the next few years and is therefore temporarily adding to the annual spending allocation amount until all pledged funding has been received and the endowment is self-sustaining.

Classification for spending account:

- i. Research (E0010 - E4999, E9800 - E9949): includes chairs and professorships, graduate awards and all other research-related endowments; or
- ii. Special Purpose (E5000 - E9799, E9950 - E9999): includes student financial support (undergraduate awards, graduate and undergraduate bursaries), academic programs and general support endowments. General support endowments are those where there are no restrictions on the use of spending (e.g. donated for spending at the Dean's discretion). Generally, these endowments are held at the faculty level with one endowment per faculty.

### 3. Use of spending account

The Dean is responsible for ensuring that the expenditure of endowment funds complies with the endowment purpose, as well as university policies and procedures. Proper **stewardship** includes appropriately spending funds for the restricted purpose for which they were given.

Deans are responsible for having a spending plan in place for every endowment fund held within the faculty. It is expected that the annual spending allocation is expended each year (i.e. within a 12-month period) and any unexpended portion would represent a planned expenditure timing lag, which would normally be expended in the following 12-month period. The Endowment Spending Estimator provides information on the current fiscal year's spending allocation, the estimated spending allocation for the next fiscal year and the estimated spending allocation associated with new endowment contributions.

Deans are also responsible for ensuring an annual assessment is completed on all endowments managed by the faculty, in order to confirm that spending occurred (pursuant to the spending plan) and that all expenditures were compliant with the endowment's purpose. This annual assessment provides assurance to the Board of Governors that the university is properly carrying out its role as trustee. To assist with this assessment, refer to the Endowment Compliance Template under the Forms section.

- a. Expenditures must be approved by the budget owner and must comply with the endowment's purpose. All expenditures related to the endowment must be coded to the endowment, and all expenditures must be coded to the same deptID as specified on the Request New Endowment form. Other unit specific chartfields are optional (program, class, and project). Over expenditures (i.e. spending account balance is less than \$0.00) are not allowed.

There are various internal financial reports available; refer to the Guide to Financial Management/Financial Reporting for information.

- b. Transfers out of the spending account are permitted if they comply with the endowment's purpose. Endowments with allowable transfer activity are generally endowments that support a formal internal awarding process (e.g. researchers can apply for an internal research grant). The Dean is responsible for ensuring that the transferred funds are used in accordance with the endowment's purpose.

### 4. Donor reporting

Reports to donors are sent out annually after fiscal year end. The Endowment Fund Report contains summarized financial activity and basic performance information for the individual endowment. General investment performance information is also provided at the **University Endowment Pool (UEP)** level. Other stewardship reporting may include information on activities undertaken/supported by the endowment as well as information on current award beneficiaries.

On an annual basis (fourth quarter), External Relations provides the Dean with a report which highlights spending account balances representing more than two years' accumulation. The purpose of this report is to assist the faculty in identifying potential concerns associated with spending balances that have accumulated.

5. Other endowment administration

- a. Although uncommon, circumstances may arise where it is prudent to vary the purpose and/or terms of an endowment. Due to the extraordinary nature of such request, variation of an endowment requires the approval of the Vice-President (External Relations). The Vice-President (External Relations) will consult with the Office of the General Counsel and the President's Executive Committee - Operational, as appropriate.

A request for a variation must be submitted to External Relations by the Dean. Unless the power to vary an endowment is expressly provided in the governing document, any variation request will also likely require court approval.

- b. From time to time, other endowment changes may be required, such as a legal change to a company name. For such changes, contact External Relations as they will be able to assess, approve and process the change if deemed appropriate.
- c. Transfer from unrestricted funds to endowment capital

In general, university funds that are not subject to trust obligations (i.e. unrestricted funds) cannot be transferred to an endowment's capital account, with the exception of bequests of \$50,000.00 or more. Sales revenue is not generally eligible for transfer; however, there may be certain limited circumstances where sales revenue may be permitted (\$250,000.00 or more).

All transfers require Board of Governors approval. Any request for such transfers must be reviewed and approved by the Provost, upon consultation with the President's Executive Committee - Operational as appropriate, prior to submission to the Board of Governors. Please contact the Office of the Provost for further information on how to make this request.

- d. Capitalization of spending allocation is generally not permitted as it results in providing more spending allocation to support the endowment's purpose in future years than in past, which is contrary to the purpose of the endowment. The University Endowment Pool (UEP) provides for the preservation (i.e. inflation protection) of the spending amount as well as some additional growth in the real value of the endowment. Contributions to the endowment have been designed to support the annual expenditure amount required to meet the endowment's purpose.

However, there may be certain limited circumstances where capitalization of spending allocation may be allowed. A request for capitalization must be supported by a reasonable and achievable plan. Requests for capitalization of spending allocation must be approved by the Provost. The Provost will consult with External Relations and others as part of the evaluation process.

Generally, a capitalization request would be \$50,000.00 or greater and would be available from the current year's spending allocation. The request must be submitted to the Provost in the month of December. Please contact the Office of the Provost for further information on how to make this request. Approved requests will be processed in March.

Any requests for exceptions not specifically addressed in this procedure must be submitted to the Provost. The Provost will review on a case-by-case basis with the Vice-President (External Relations) and the President's Executive Committee - Operational, as appropriate.

## **DEFINITIONS**

Definitions should be listed in the sequence they occur in the document (i.e. not alphabetical).

Any definitions listed in the following table apply to this document only with no implied or intended institution-wide use. [ <a href="#">▲Top</a> ]	
<b>Endowment funds</b>	Endowment funds represent contributions designated to support specific programs (e.g. scholarships, academic chairs) as well as capitalized investment income not required for spending and other capitalized amounts.
<b>Endowment</b>	An endowment is held in trust by The Governors of the University of Alberta as trustee, and not in its own right. Endowment capital is invested in perpetuity. A portion of the investment earnings is used to support those specific purposes that were agreed to when the endowment was created.
<b>Trustee</b>	The Governors of the University of Alberta, which holds legal title to the endowment funds and has a fiduciary and legal obligation to ensure that the endowment funds are managed and administered in accordance with the purpose of the endowment.
<b>Governing document</b>	The legal document establishing the university's trusteeship of an endowment and setting out the endowment's trust object (i.e. purpose). The governing document is usually the university's Statement of Trust form, or in the case of a bequest, a related will.
<b>Restricted fund</b>	Restricted funds are expendable funds which can only be used for specific purposes and are governed by restrictions set by donors/external organizations. The university is entrusted with the responsibility to ensure that the endowment spending allocation, which is restricted funding, is used in accordance with the purpose set out in the governing document.
<b>University Endowment Pool (UEP)</b>	The pooling of investment assets donated to or accumulated by the university to facilitate investment management and administration of the endowment funds.
<b>Stewardship</b>	Stewardship relates to management of resources. In the context of donations, it involves: <ul style="list-style-type: none"> <li>• Effective management of the resources represented by the donation.</li> <li>• Compliance with the terms of the trust.</li> </ul>
<b>Real value</b>	Used in conjunction with asset values and restates nominal amounts for movements in the consumer price index.

**FORMS**

- [Endowment Compliance Template](#)

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The following resources are an integral part of this procedure, and are available on External Relations' Knowledge Net (KNET), through secure access. If you do not have access, please discuss with the Senior Development Officer in your Faculty.

- Statement of Trust form
- Request New Endowment form
- Request New Endowment Award and Bursaries form
- Request to Vary Endowment Purpose/Terms form
- External Relations' Toolkit

**RELATED LINKS**

- [Endowment Spending Estimator](#)
- [Guide to Financial Management/Financial Reporting for Users](#)

Should a link fail, please contact [uappol@ualberta.ca](mailto:uappol@ualberta.ca). [[▲Top](#)]